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SUBJECT: LIBYA PREPARED TO FINALIZE - BUT NOT SIGN - A TIFA

REF: MILLER-BURKHEAD EMAIL 4/20/2008

¶1. (SBU) Summary: The Minister of Economy-equivalent said the GOL has resolved two key internal debates related to a Trade and Investment Framework Agreement (TIFA) and is prepared to finalize the accord with the U.S., provided a final face-to-face meeting of technical experts - an important political exercise, from its perspective - occurs. While the GOL is prepared to finalize the text of the agreement, it will not be in a position to sign the agreement so long as Section 1083 (the so-called Lautenberg Amendment) of the U.S. 2008 National Defense Authorization Act applies to Libya. Separately, the GOL is continuing internal deliberations on how to implement a radical privatization and economic reform agenda recently proposed by Muammar al-Qadhafi amid concerns the measures could exacerbate inflation and unemployment. End summary.

GOL READY TO FINALIZE TIFA, BUT WANTS FINAL FACE-TO-FACE MEETING OF EXPERTS

¶2. (SBU) The CDA met with Secretary of the General People's Committee for Economy and Trade (Minister of Economy-equivalent) Dr. Ali Abdullah Essawi on April 17 to discuss next steps on finalizing a U.S.-Libya Trade Investment Framework Agreement (TIFA). Reiterating points made in an earlier meeting with Emboffs by Dia Hammuda, Director of the Ministry's Foreign Cooperation Office, Essawi stressed that while much progress has been made via email correspondence, from the GOL's perspective a face-to-face meeting between technical experts to review and finalize the language was necessary. An agreement of this kind represented an important political commitment; an in-person meeting to discuss the document was a significant and appropriate part of the process. (Note: Essawi's position reflects the Libyan perspective that the political intent behind an agreement is as important as the language of the document itself. End note.)

¶3. (SBU) Two issues were identified in Emboffs' earlier meeting to discuss the TIFA: 1) whether the GOL wanted the agreement to come into effect upon signing or upon notification of ratification by the respective parties, and; 2) language for labor provisions in the agreement that had to be provided by the GOL's Labor Ministry-equivalent. Essawi told CDA the GOL had decided it would prefer that the agreement come into effect after notification of ratification. The Ministry of Economy had also received the language for the labor provisions, which would be forwarded to USTR this week via email. Essawi suggested that the technical experts try to meet sometime in May or June to finalize the document. Foreign Cooperation Office Director Hammuda will lead the GOL's delegation. (Note: The technical experts' meeting may help avoid GOL proposals for changes to the text of the agreement on the eve of signing, as occurred in January 2008 with a US-Libyan Science and Technology Agreement. End note.)

LIBYA WON'T SIGN AGREEMENT UNDER SHADOW OF LAUTENBERG AMENDMENT

14. (SBU) Essawi made it clear that while the GOL is prepared to finalize language for a TIFA, it would not be in a position to sign the agreement so long as Section 1083 (the so-called Lautenberg Amendment) of the U.S. 2008 National Defense Authorization Act applied to Libya. (Note: The Lautenberg Amendment potentially facilitates attachment of Libyan government assets to satisfy damages awarded by U.S. courts in terrorism-related cases. The GOL has taken significant measures to insulate its assets from potential seizure, to include divestiture of investments in U.S. financial markets by its sovereign wealth fund. End note.) Citing an Arabic expression, Essawi said signing a TIFA in the shadow of the Lautenberg Amendment would be just "ink on paper", mocking the intent of expanded economic and commercial ties.

GOVERNMENT WORKING TO IMPLEMENT QADHAFI'S VISION ...

15. (SBU) Responding to the CDA's question about implementation of economic reforms and radical privatization advocated by leader Muammar al-Qadhafi in a key speech on March 2, Essawi said the goals are to dramatically reduce the government's role in regulating economic activity while more efficiently distributing Libya's oil wealth to its people. The government believes radical reforms, to include ending subsidies for foodstuffs and commodities, as well as regulation of utilities, will encourage more rapid economic reform and privatization. Essawi is a member of two (the economic activities committee and the wealth distribution committee) of the five cabinet-level committees charged with implementing Qadhafi's vision. He indicated that the implementing committees' consultations were to be concluded by September, with final recommendations expected by year's end.

TRIPOLI 00000336 002 OF 002

... BUT IS CONCERNED ABOUT INFLATION, UNEMPLOYMENT

16. (SBU) Essawi conceded that achieving a balance between ending government subsidies and maintaining a politically palatable daily standard of living was "very difficult". Expressing concern that the measures could prompt inflation and greater unemployment, he carefully noted that Qadhafi's proposal that each family receive direct allotments of 5,000 Libyan dinar (about \$4,200) per month was "an idea" for oil wealth distribution, and suggested that other forms of compensation such as shares in government funds might be an alternative. (Note: Qadhafi proposed eliminating virtually all state subsidies and radical privatization, to include the education and health care systems, in exchange for providing direct stipends to citizens, from which they would ostensibly pay for and collectively manage everything themselves. End note.) Essawi put the overall unemployment rate in Libya at 17 percent and the unemployment rate among "youth" aged 18-34 at 25 percent. (Note: A 2004 World Bank estimate put the overall unemployment rate at 30 percent. End note.) Growing the economy and creating jobs were key priorities, he said, noting that one-third of Libya's population is under the age of 18. (Note: The CIA's World FactBook estimates that 33.2 percent of Libya's citizens are under the age of 14. End note.)

17. (SBU) Comment: A sophisticated, forthcoming interlocutor, Essawi drew a clear line between potential signing of a TIFA and waiving application of the Lautenberg Amendment. His concerns about possible inflationary and unemployment pressures related to implementation of Qadhafi's privatization and economic reform scheme echo what we've heard from other contacts. End comment.

STEVENS